

***Food for Thought in Challenging Times – Evaluation of the Agribusiness Strategy 2019-2023  
and early results of its implementation***

**Management Comments**

**Executive summary**

Management thanks the Evaluation Department and welcomes the interim *Evaluation of the Agribusiness Sector Strategy 2019-2023 and early results of its implementation*. Management shares the view, and appreciates recognition of the strategic importance of the Agribusiness sector. Management notes the comprehensive analysis and findings of the report in general and values the identification of early lessons as well as recognition of overall successful projects. The evaluation was carried out maintaining the agreed timeline and Management notes that the selected five countries of operations are representative of the diversity of agribusiness operations. Management appreciates that the report acknowledges the limits imposed by the pandemic, the war on Ukraine and disrupted supply chains, and thus, finds the recommendations to be indicative of the trends. At the same time, Management deems it necessary to reflect more on the limitations of an interim evaluation, the partial relevance of early results compared to a “regular” final evaluation (typically carried out at the end of the strategy cycle), and therefore, the implications of its recommendations for the new strategy.

Management notes that the interim evaluation includes, by default, an early sample of projects and Technical Cooperation projects (TCs) (2019-2021) which covers a timeframe that is too short to fully assess Transition Impact (TI) impacts/outcomes that take time to realise. In addition, the first two years of the strategy also coincided with an exceptional historical period that shook global markets (i.e. the Covid-19 pandemic, followed by the war on Ukraine), for which the operational response of the Bank was to focus on emergency priorities that were embedded into Frameworks, and applied to all investments. Furthermore, assessments of Ukrainian projects were carried out remotely due to the war.

Management also notes that a more agile approach to sector strategies may well allow the EBRD to be at the forefront of the global discourse on food and agricultural sector and in our Countries of Operations (COOs), while at the same time it may also significantly alleviate the burdensome workload on, as the report correctly identifies, already strained resources. The current approach requires a formal, almost 18 months-long, process for the new strategy preparation.

Management’s response to the report recommendations is provided below, followed by further comments on the findings of the report.

**1. Recommendations**

***Recommendation 1: Sharpen the strategic ambitions of the Bank in the sector by better promoting innovative agricultural techniques and transformational approaches to tackle the challenges of food security and sustainable agribusiness. In particular, assuming food security becomes again part of strategic priorities, the new Strategy should consider Sustainable Agricultural Intensification as one of operational priority areas, in line with the evolution promoted by other IFIs, and for fostering synergetic approaches combining different TQs.***

**AGREE. Management agrees on the need to sustainably improve agricultural productivity to meet increasing food demand but suggests revisions to the subtext of the recommendation.**

Sustainable agricultural intensification, innovative techniques or similar approaches implemented by private sector companies and other IFIs could be considered in the context of the next strategy. Management notes that to date, there is no consensus on what sustainable agriculture means in practice, and Management approaches sustainability as a process of balancing multiple models across multiple dimensions in a specific context. Management

highlights that, given the penetration rates of products and practices, and the different stages of development of our COOs, the strategy would need to balance the level of ambition suggested, with the realities on the ground. Management envisages that food security will become a part of the next strategy. Management took an active role to better define Food Security given the renewed prominence in the past year as part of the Bank's response to the war on Ukraine.

**This is not in contrast with the current strategy.** Management clarifies that the current strategy highlights the need to simultaneously meet and balance three competing needs: efficiently close the food gap to provide all people with the food they need, preserve natural resources and address climate change and improve the social and environmental impact of the sector – in a sustainable, responsible and innovative manner. The strategy further reiterates that closing the productivity gaps in COOs and higher value- addition processes are still important, in the context of food (in)security in the EBRD's region as well as globally. It is also important to improve climate change resilience and natural capital conservation within the context of projected demographic growth.

**Recommendation 2: Approach “innovation” more strategically and proactively:** *improving the value proposition of the Bank for its client and better target sustainability gaps with innovative agricultural techniques in particular. This assumes a clearer definition in the new strategy of a few types of technological innovation, which the Bank would like to promote and focus on, and may include dedicated TCs/grants to de-risk investments in new technologies and business models. The Bank could also more proactively identify agribusinesses seeking to make these types of investments and consider alternative financing modalities (e.g. equity, blended finance) given the risky and often early-stage nature of such investments.*

**PARTIALLY AGREE:** Management believes that its approach for innovative-business models in Agribusiness needs to be separated from the concept of innovative-financing solutions (equity, blending), and that these approaches should not be limited to a predetermined set of technologies/processes to be singled out in the new strategy. Management believes that the complexity of the agribusiness sector and the needs to react to the demands in specific geographies within specific context should be considered.

Management has recognized the need to innovate in its approach and has recently launched the Agri Venture Program for strategic reasons, and has been working with FI and SME F&D teams to develop innovative financing solutions proactively. So we agree on the need to continue innovating (business model or financing model) to target priority areas and innovative technologies, processes and products, but disagree on commitment for dedicated TCs and grants to de-risk investments for pre-set types of technological innovation.

Management also underscores that the focus should be on the outcomes and TI impacts of technologies, products, processes (e.g. GHG emission reduction; increased soil fertility), coupled with “sound banking” principles, including the commercial viability of the projects it supports (as tested also in the absence of subsidised financing means).

It should be noted that a lot has changed in the food and sustainability landscape since 2018 when the strategy was adopted, including the European Green Deal (in 2020, along with the relevant Farm to Fork Strategy) as well as new COP26 commitments, the changes in definitions and the understanding of the sector that such developments have influenced. Management notes that the Bank is already making strides towards better equipping itself with the knowledge and tools to address innovation and the greening of the sector and will continue efforts towards that goal.

Recognising the need to sharpen its objectives as well as solidify its approach on climate and innovation in the food sector from a practical/investment point of view, the Agribusiness team has already undertaken ample diagnostic/technical work as evidenced by the below TCs (e.g. urban farming, alternative proteins, etc.). The approach also seeks to identify niche companies to be financed.

**Recommendation 3: Set clearer operational priorities:** *avoiding “catch-all” definitions; including more precise objectives tailored for each of the Bank’s key target countries/regions, to ensure the strategy provides an effective guidance for project selection; and identifying niches of strategically aligned business development (e.g. renewable energy, energy efficiency improvements, gender equality). This can be facilitated by expanding diagnostics to include analysis of gaps related to the Bank’s main strategic initiatives (GET and ESI) to identify types of projects and activities the Bank could effectively do in these areas and provide means for actively promoting the targeting of such areas.*

**PARTIALLY AGREE:** Building upon previous experiences, Management has some reservations, and remarks that overly “granular” definitions have the risk of becoming irrelevant in the context of an ever-evolving external environment, thus could result in a long and (potentially) un-operational list of narrower and niche objectives. This may hinder Banking in its efforts to address new opportunities and work with clients towards specific strategic aims, instead relegating it to conduct business development and project selection based on constrained criteria (e.g. countries, only a typology of specific energy efficiency improvements etc.).

Management believes that it is imperative to set operational priorities by considering the market and the acts of other similar players. The strategic and operational priorities cannot be set without an understanding of the external context within which the EBRD operates. In preparation for the new *Agribusiness Sector Strategy*, Management intends to engage an external consultant to carry out a benchmarking exercise and to inform the EBRD on the practices, aims and goals of other MDBs and financial actors active in the agribusiness sector, as well as a review of main trends and changes in the context of food production in the regions where the EBRD is active. This would also involve a review of the Bank’s stakeholder expectations, client aspirations, market/sector regulations and other ESG related developments. Management believes that this exercise will ensure that the Bank will set more effective operational priorities, policy dialogue expectations, as well as country or sector-specific targets that are realistic and rooted in market conditions. More specific objectives tailored to the country context would be set as part of the country strategy preparation.

**Recommendation 4: Better specify and articulate main objectives of policy dialogue:** *setting clear goals for the key countries/regions, building on broader sector policy goals identified in the country strategies and aligning them better with investments and the Bank’s strategic initiatives, to unlock potential for growth for clients and potential for additional business for the Bank.*

**PARTIALLY AGREE:** Management is of the view that policy dialogue at the sector level could be better explained and defined for some key countries in the next strategy (also in collaboration with strategic partners such as the FAO). In line with the interim evaluations results, Management concurs that successful outcomes are achieved when there is a clear opportunity on the ground and an investment stream to justify the EBRD’s involvement. While the areas of policy dialogue can be listed (e.g. food security), the political context and the momentum for policy change cannot be fully anticipated. Management also believes that the relative strength of sector strategies is to highlight global trends relevant for the sector as a whole and keep a global outlook.

Management hence identifies the need to maintain flexibility (consistent with the 2019 Strategy response to EvD’s recommendations to the 2010 Strategy). In addition, the newly established

Policy Strategy and Delivery (PSD) department is responsible for delivering quality interventions through leading policy engagements in countries of operations including policy advisory and reform advocacy while supporting transactions with policy linkages and components.

All policy dialogue activities will be aligned with PSD, Climate Strategy and Delivery (CSD), Environment and Sustainability (ESD) priorities and the Bank's strategic initiatives in the different COOs.

Management clarifies that the use of the *Agribusiness Sector Strategy* to operationalise the Bank's work in the Agribusiness sector occurs at various levels. Firstly, *the Agribusiness Sector Strategy* provides the overall framework, from which the Bank's investments, TC and policy dialogue in the Agribusiness sector are oriented and scoped, including actively when the banking team markets and reviews the context of such work. Secondly, the individual investments, TCs and policy dialogues are considered carefully at their design stage vis-a-vis the alignment with the Agribusiness Sector Strategy. The design is impacted and reflective of the Agribusiness Sector Strategy focus areas / priorities. Thirdly, work is developed to deliver on the Agribusiness Sector Strategy areas (as an example, joint work with the Sustainable Infrastructure Group for irrigation projects in Serbia and Tunisia). The structure of the Agribusiness Team, with Agribusiness Advisory working closely and in tandem with Banking facilitates this process and ensures accountability.

***Recommendation 5: Enhance the Performance Monitoring Framework (PMF) to serve as a management tool for monitoring the portfolio's alignment with the strategy's objectives and achievement of results. This could be done in particular by adding further granularity to output indicators, expanding outcome indicators and presenting the PMF monitoring plan, with appropriate resources allocated to periodically aggregate indicators' results.***

**PARTIALLY AGREE:** Management partly agrees with this recommendation, due to the rationale provided above on granularity of priority sectors and countries. Requiring further granularity in the output indicators would require considerably more full-time resources and system additions, again in a manner that may not be evident that it would pass "cost vs. benefit" considerations in terms of achieving strategic goals as well as maintaining investment flexibility.

## **2. Findings of the report**

### **Strategy quality and relevance**

*An EBRD Strategy of good quality but with limited bearing on the portfolio's structure*

Management welcomes and agrees with the findings of the report that the strategy is relevant, adequate, well aligned with global and regional priorities and was solidly prepared in a coherent manner. Noting that the early sample of projects were affected by external shocks as outlined above, Management would therefore be cautious in deriving clear trends, as there are still two full years of implementation of the current strategy, which have not been assessed, and therefore may alter the overall results. For example, if we were to take the evolution of the trend in Green Economy Transition (GET)-share including only one additional year we witness an increase from 18.4% in 2019 to 35.8% in 2022. However, this progression cannot be captured as the evaluation period ends as of 2021, thereby missing crucial data. Similarly, if one includes projects in SEMED countries during 2022-2023, the trend shifts in terms of volume and type of investments, as well as representation of TI qualities, with Resilient being more prominent.

In conclusion, some of the early lessons and recommendations stand true due to the sample (e.g. only early projects at the beginning of the strategy cycle) and the timeframe of the evaluation, which coincided with major global shocks. However, it may not hold when applying the assessment to all

projects and TCs at the end of the cycle. Management believes that an interim evaluation should be treated as an indication of early findings and of lessons to reflect on, not as a conclusion to derive an alternative rationale to take on new strategic priorities.

### **Prioritisation and specificity**

The interim evaluation reflects on top-down approach and specificity. The interim evaluation suggests areas where more specificity is needed, and hints at using the strategy as a prioritisation tool (top-down approach). The evaluation adequately describes the relationship between country and sector strategies. Management would like to reflect on the topic of strategic prioritisation. The strategy incorporates features of both top-down and bottom-up approaches. On the top-down approach, the *Agribusiness Sector Strategy* is subordinated to the Bank's guidelines, principles, policies and strategies, and supports the implementation of the *EBRD Strategic Capital Framework*. The implementation of the *Agribusiness Sector Strategy* is set within the scope of the three key principles governing EBRD operations: transition impact, sound banking and additionality. In this context, the Agribusiness Team, which is focused on the private sector, uses a bottom-up approach, starting with companies, local knowledge and understanding of the market, broadening out to contribute to the EBRD targets and goals (GET/Inclusion/Digital, transition, etc.). The bottom up approach is "market driven", meaning that it supports private sector initiatives that match the priorities of the Bank, and with the *Agribusiness Sector Strategy* in the context of what the market is ready to provide in our COOs. The strategy therefore aims to balance the strategic ambitions and requirements set forth by the Bank, with the trends of the market as well as the reality of business investments that are accessible and feasible for the Bank.

### **Transition Impact**

Management appreciates that the report appropriately outlines the use of different TI qualities. The analysis shows that, albeit slowly, the strategy contributed in moving the needle in the right direction. The results of the interim evaluation underline that incorporating new elements in investment projects takes time, as companies adapt progressively to new areas of focus. Overall, this is a good trend, especially in a time of economic turmoil and the pandemic, when new business models and capex investments are riskier and limited (and the EBRD's risk approach remains cautious). Management agrees with highlighting the relevance of TCs and advisory services, delivered in the context of investments, as a means to support companies that undertake more ambitious projects.

Management underscores the complexity of choosing amongst TI Qualities, especially in the context of set TI ratings under Frameworks. Management would like to reiterate that, as the system is structured, Competitiveness in Industry, Commerce, and Agribusiness (ICA) remains one of the most relevant qualities, where projects fit naturally. This is not in contradiction with the *Agribusiness Sector Strategy* and the EBRD's Transition Qualities (TQ) framework, which include Competitive and Resilient as strongly relevant TQs. Meanwhile, this is also reflected by a considerable number of Agribusiness projects with Small and Medium Enterprises (SMEs) or small-country clients, for which Competitive and Resilient TQs remain (even more) highly relevant.

Resilient was historically constructed around Financial Institutions (FI) projects and related to the resilience of financial markets to shocks. During the implementation of the current strategy, the Agribusiness Team worked with the Impact team to substantiate and incorporate an "entry" in the transition model embedded in the Bank's operational and corporate reporting system (Monarch) for Food Security under the Resilient quality. This was officially implemented, as there was no other way to capture Food Security at the Bank's level. This request was made at the beginning of the previous strategy period, but only acted upon in response to the war on Ukraine in 2022, and under the *Resilience and Livelihoods Framework*. While it would be less frequent to have Inclusion as a primary quality, it is

noteworthy to underscore that working with private sector clients the team was able to achieve outstanding results by collaborating with sponsors that are committed to the cause.

### **Green & GET approach**

As Management briefly referred to above, in terms of the Green quality, GET as a percentage share of the Agribusiness ABI has been increasing consistently during the evaluation period (2019-2021) and afterwards— i.e. from 18.4% in 2019 to 35.8% in 2022, and this is expected to have an effect on the overall average at the end of the strategy cycle. In parallel, the continued presentation of GET approaches to Agribusiness clients and the scoping of more GET delivery routes in the agribusiness sector remains an important focus area, as reflected in the higher proportion of Green (and Inclusive) secondary TQs. Notably, agribusiness projects are the main generator of climate adaptation finance at the EBRD level.

Management, however, notes that there are significant impediments to achieving a higher GET/green share. The challenge of defining and achieving higher sustainable investments in agriculture is not specific to the EBRD, but to the complexity of the sector.

The Green/GET methodology currently focuses on, and is structured, around capex investments (with a heavy focus on energy efficiency) and does not fully recognise green measures undertaken at the supply chain level, while agribusiness remains a working capital business where significant environmental impacts can be achieved in the supply chain and without significant capex investment, such as via the adoption of advanced standards which in turn promote innovative technologies such as precision farming , or regenerative practices. The majority of EBRD clients are processors, retailers, traders and 90%-95% of their environmental impact lies in their supply chain.

### **Innovation**

*The Bank has often demonstrated added value for the sector beyond investments but untapped potential remains, especially on the innovation front*

Management concurs that it is of utmost importance to integrate sustainability considerations to the new strategy and to increase focus on innovation. Specific analysis was carried out in 2018 on penetration potential of frontier technologies in the EBRD region. Result showed that none of these were available in the EBRD region, their development was considered very risky (seeds, robotics, AI) and policies are not in place to augment their use. While some progress was made in the most advanced COOs, Management would argue that it is yet unrealistic to target frontier technologies, and to aim at being at the “forefront of the 4th agricultural revolution”.

Management considers that delivery on “innovative” projects was partly higher than portrayed in the report despite this being a challenging delivery front in the agribusiness sector(s) in the EBRD region (even more so during such strategy implementation period of continued crises – COVID-19, war on Ukraine, increased inflationary environment, etc.). Management agrees that the Bank shall try to play as much role as possible to support transfer and penetration of innovative technologies but would also like to take a more nuanced view about the actual viability and track record of novel food/technologies. The Agribusiness Team is also reviewing new potential “entry points” such as related to AgTech, urban farming, etc., while also trying to identify more cases / avenues of precision agriculture, higher sustainability methods in primary agriculture, food processing, and distribution / retail, etc. However, the scale and mode of their adoption by the private Agribusiness sector(s) in the EBRD COO’s as well as, in many instances, their commercial viability remain rather limiting factors. In addition, the Bank’s prudent business model of adhering to principles of sound banking and sound risk management even in times of unprecedented crises remains valid.

### **Strategy delivery and resources**

*Most results achieved, despite the challenging context, but some priorities missed, and resources strained*

Management values recognition of the current strategy delivery, despite unprecedented circumstances and flat resource allocation. The structure of the Agribusiness Team reflects the main objectives and functions of the team. Management appreciates recognition of Agribusiness Advisory, embedded in the Agribusiness Team, as exhibiting critical support to banking operations internally, and to the clients and other stakeholders externally. Since 2019, Agribusiness Advisory has been supporting ICA activities and providing TC support across the ICA Group, with more than 100 contracts signed per year for project preparation and post signing TCs. With more blended finance expected, resources will be stretched even further.

Management appreciates and agrees with the conclusion that additional resources, both staff and additional concessional finance, are required for the Agribusiness Team, in light of new complex assessment requirements to support uninterrupted delivery under the Strategic Capital Framework, ensure sound analysis for Paris alignment, amongst others. Significant workload increases over the last three years coupled with stable resource allocation have, indeed strained resources of the Agribusiness Team.

### **Additionality**

*There are however indications that additionality of the Bank's short-term (revolving) working capital financing was weaker in selected countries.*

Given the specific nature of the sector, Management notes that agribusiness and food companies require continuous significant working capital support and access (even with some additional buffer availability) in order to conduct their business and sustain their operations on an on-going basis. Balance sheets and funding structures of agribusiness and food companies tend to be “heavy/ier” on current assets (vs. fixed / PP&E assets) and shorter-term / working capital debt financing (vs. longer-term financing), compared to companies in many other sectors. A capex investment is typically undertaken once over a long(er) useful life of many years, as otherwise the commercial feasibility of capex investment pay-back would not be achieved. Its associated working capital financing is however required every year, including in order to achieve the intended use and commercial feasibility of the capex investments. Working capital needs of agribusiness and food companies also tend to be more prone to external price or market volatility and seasonality, which in some cases may also result in the delayed or cancelled use of some working capital facilities (that were previously anticipated as necessary).

Meanwhile, in some cases the incorporation of (further) requirements in the design of working capital facilities, is driven by consideration of fully promoting sound banking and risk management, but which does not per se mean weaker additionality of the EBRD's (revolving) working capital financing to agribusiness and food companies. EBRD often provides longer working capital loan tenors (i.e. 3 year or even more) vs shorter working capital loan tenors (i.e. up to 1 or 2 years) provided by local banks to agri and food companies in many EBRD country of operations. Last but not least, in many cases working capital financing enables the EBRD to indirectly reach fragmented agricultural and food supply chains and hence can serve as conduit to pass-through delivery of intermediate outcomes (such as requirements for better standards and certifications, promotion of organic content, etc.) though such supply chains, in a way that would not be possible otherwise.